

International Real Estate Society Conference '99

Co-sponsors:

Pacific Rim Real Estate Society (PRRES)

Asian Real Estate Society (AsRES)

Kuala Lumpur, 26-30 January 1999

THE SIGNIFICANCE OF CHARACTER IN LONG TERM DEMAND FOR AUSTRALIAN HOUSING

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Residential housing design and construction techniques have evolved significantly in Australia during the later half of the 20th century. Detached residential housing constructed during the 1950's and 1960's incorporated a distinct style and character which is easily recognisable today. Even less expensive housing from 'the old days' endeavoured to include individual characteristics and 'dared to be different' from the neighbouring properties.

It appears that short term consumer demand for cost-effective housing (including less expensive, faster design and construction) has caused a shift towards mass manufactured housing with 'character' being sacrificed. However there are many questions asked about the long term effect on the value of such homes when too much emphasis is placed on today's cheaper construction cost (usually promoted on a rate/m²). Does the marketplace for housing recognise the individual characteristics of a bygone era and reward accordingly? Will today's newly constructed homes be rewarded with a similar level of long term demand in the future if 'character' is omitted? These questions encourage further research in this area.

In Australia residential real estate has been viewed as a means of providing a regular rental return for investors with accompanying taxation advantages (eg negative gearing), or alternatively for owner-occupiers, there are the security/tangible benefits of being a home owner. Additionally, residential real estate has always been considered as a 'hedge against inflation' due to its anticipated long term capital growth. However in recent times short term capital gains in real estate have been unimpressive as opposed to competing forms of investment, eg share market (Stammer, 1998). Again this underlines the importance of viewing residential real estate as a long term investment.

Although there has been significant growth in medium to high density units, single detached residential dwellings continue to be the dominant form of real estate investment in Australia, being in demand by both owner-occupiers and investors. This paper is concerned with certain aspects which influence the level of demand for a residential dwelling. Simply explained, if the property being valued is considered to be *better* than the comparable one, then a higher price will be paid; if it is less *attractive* a lower price will result (Adair, Downie, McGreal, Vos, 1996).

Building designs are often considered 'average' and resemble those in the surrounding vicinity, even though it is well known that there is an interaction between building design and marketability (Barnett, 1996). This paper is concerned with the long term value of housing and concentrates on the proven interaction between design/construction techniques and the marketability of detached residential housing. Even when referring to the term 'attractiveness' nearly 40 years ago, Ratcliff (1961) highlighted that the visual appeal of a dwelling is a definite factor in determining market value. Additionally, Ratcliff (1961, p.60) states that "soundness of structural design contributes to long life and value stability".

The author does not attempt to closely analyse or criticise the abovementioned design/construction techniques and although not suggesting significant overnight changes, does question if adequate emphasis on long term capital gains is still being placed on these criteria nearly 40 years later. This is a pilot study and is designed to be the catalyst for further detailed investigation into this area.

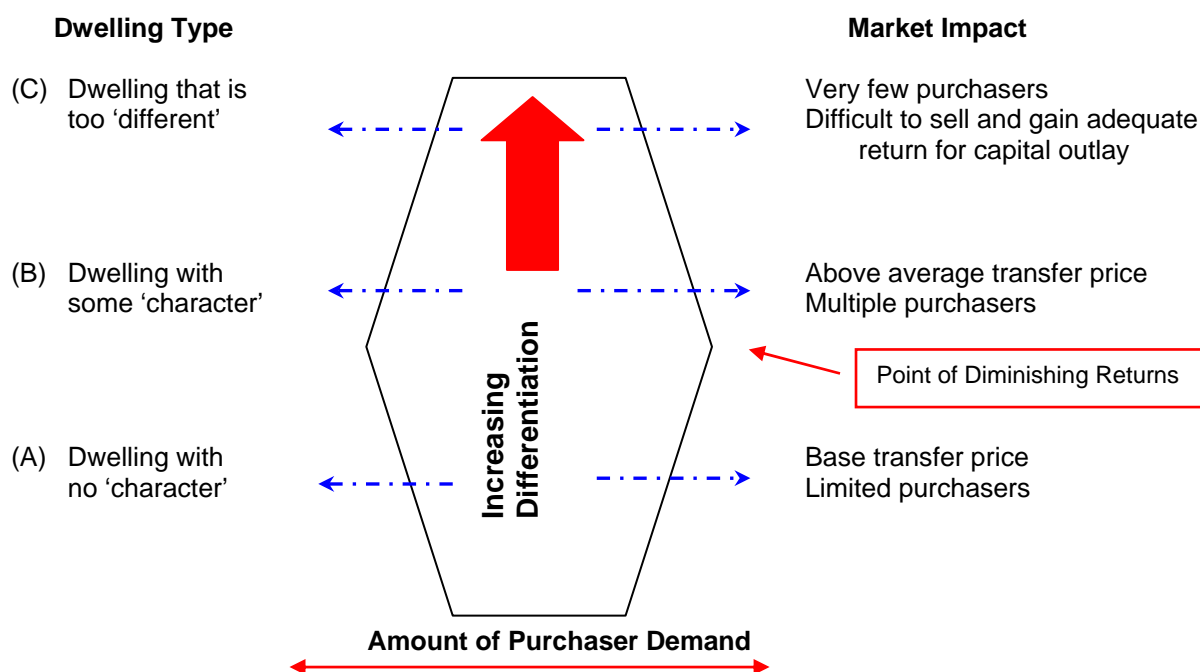
This research draws attention to the following questions:

- Is today's Australian housing considerate of long term housing demand? (ie is too much emphasis placed on speed of construction with too little consideration given to character?)
- Will an Australian dwelling constructed in 1999 reflect the same level of price appreciation over a 40 year period that a dwelling constructed in 1959 does?

This paper is based upon ‘character’ which is defined in *The Everyday Oxford Dictionary* as “all those qualities that make a person, group, or thing what he or it is and different from others”. Therefore the emphasis is also placed on *different* – if being different is an advantage, what degree of value-adding differentiation is optimal? Bevan (1991) emphasizes the need to be unique which adds value and makes the product ‘stand out from the crowd’. Of course there are no steadfast rules which apply to all properties as each should be approached on an individual basis, especially when considering the heterogeneous nature of the allotment it is situated upon.

From a residential valuer’s perspective, residential properties which differ *significantly* in design and construction methods from a standard dwelling (as viewed by society) will be in less demand and achieve overall lower transaction prices. However if a dwelling is *slightly* different (yet not too different) and is perceived to have a limited amount of character, purchasers in the market will generally recognise this feature and reward accordingly with a higher offer/transfer price. In most established residential areas in Australia, dwellings currently for sale are easily recognisable from the street due to the ‘for sale’ sign from the real estate agent on the front fence boundary. As search costs deter buyers from inspecting all available houses (Anglin, 1997), it is important to consider the effect that a buyer’s ‘first impression’ of the dwelling (and its ‘character’ or lack thereof) impact on the overall sales process and the real estate market in general.

Figure 1: Detached Residential Dwelling Character Model



The conceptual model in Figure 1 demonstrates the broad relationship that ‘character’ is perceived to have on the amount of purchaser demand and subsequently advertising periods and transfer prices for detached residential dwellings. As level of differentiation increases vertically, the amount of purchaser demand also increases on the horizontal axis until a ‘point of diminishing return’ is reached when purchaser demand is at its highest. After this point, the amount of purchaser demand is then inversely related to the increasing level of differentiation.

Group (A) represents standard dwellings which would typically be described as ‘basic’ or ‘generic’. An example would be a basic standard brick dwelling which was designed and constructed with little consideration (if any) given to differentiation from surrounding properties. Group (B) is the focus of

this report and incorporates properties which have been designated as having some degree of character or attractiveness. Some consideration has been given to differentiation in the design and construction of these dwellings with the building being noticeably dissimilar (or different) in some facets to others in the street and surrounding area.

Group (C) refers to properties which are significantly different to the surrounding properties. This style of dwelling is distinctly different and stands alone – real estate valuers and appraisers will often categorise this level of improvement as being ‘over-capitalised’ and adjust the valuation amount downwards accordingly. Even in the most stereotypical suburban developments, some owners strive to establish uniqueness and usually these unique features create an over-improvement or superadequacy that is atypical for the neighbourhood (Harrison, 1996). An example would be a home with corrugated iron clad walls in a suburb consisting of predominantly timber and brick dwellings. The design of a Group (C) dwelling may also be irregular (in comparison to the immediate locality) in design, eg hexagonal, pole house in a ‘brick on slab’ area.

It is vital that the importance of the detached residential dwelling market in Australia and its value are not underestimated in comparison to other forms of real estate. The breakdown of the Australian housing market in 1995-96 (according to the Australian Bureau of Statistics (CDATA96)) is listed in Table 1.

Table 1: Number of Dwellings by State/Territory (1995-1996)

State/Territory	Single Detached Residential Dwellings	Townhouse, Flat, Unit, Other	Total Residential
New South Wales	1,732,100	554,400	2,286,500
Victoria	1,382,100	325,700	1,707,800
Queensland	1,026,000	239,500	1,265,500
South Australia	453,200	134,000	587,200
Western Australia	525,500	139,200	664,700
Tasmania	155,300	31,100	186,400
Northern Territory	32,600	15,300	47,900
Australian Capital Territory	87,400	25,000	112,400
Australia	5,394,100	1,464,200	6,858,500

Source: ABS, CDATA96

In reference to Australian capital cities, the breakdown of owner/occupier to rental is approximately 70% and 30% respectively as indicated in Table 2. Although it is important to recognise that these two groups exist, it was not possible to distinguish between the owner/occupier and investment property markets with the data collected. However, it is considered that this grouping will have a negligible impact on this research considering that the emphasis is placed on long-term values. Additionally, detached dwellings are not usually purpose built for either category and can change between these uses at short notice with little or no modifications required.

Table 2: Approximate Breakdown of Rental to Owner/Occupier Dwellings

Approximate number of rental separate houses in Australia	30%	Equates to 1,618,230
Approximate number of owner/occupier separate houses in Australia	70%	Equates to 3,775,870
TOTAL DWELLINGS	100%	5,394,100

Source: ABS, CDATA96

The Australian Bureau of Statistics (CDATA 96) states that the median value of separate houses in capital cities (1995-1996) was A\$158,600. The closest median value for any capital city was listed as A\$151,900 in Brisbane, which was designated as the city for this research.

Therefore the significance of the market for the detached residential dwelling (separate house) market in Australia is obvious. The accumulated value of the total Australian capital city market (in 1995-1996) equates to over A\$856 billion. It is the long term variance in this amount which is the focus of this research. Even a 0.5% change equates to an accumulated difference of approximately A\$4.28 billion.

Research Design

Part A - Detached Residential Dwellings

The research commenced with a sample of 108 detached residential Brisbane dwellings¹ which were advertised as being 'for sale' in the early 1960's. Each property was required to meet the following criteria:

- located within the boundary limits of the Brisbane City Council
- confirmed as a detached residential dwelling with the land area less than 2000m²
- accompanying photograph identifying the property in the 1960's
- availability of limited sales data for the period 1955 onwards.

In 1998 each property was located and externally photographed. Completion of this task permitted comparisons between present-day appearance and yesteryear photographs.

A closer analysis was then undertaken of properties which were better suited to the research criteria. As every property in the sample was not sold on a regular basis, this limited the group to 28 properties which remain in functional use and possess a well documented sales history over a long period.

A closer analysis of all properties was then conducted with the emphasis placed on 'character' as previously defined. This process was approached with objectivity being a critical element and utilised the author's market knowledge of the property and the surrounding area, plus accumulated experience as a real estate valuer. The decisions were based upon criteria which included the following:

- The level of individuality that each original building projected from an architectural perspective.
- Number of buildings in the immediate proximity that closely resembled subject.
- Clearly visual signs of efforts to differentiate during design and construction stages.

Each property was classified into two groupings - (a) with 'character' and (b) without 'character'.

¹ This group of 108 properties forms the basis for continued research by the author in the residential housing market. Each house will be photographed at regular 5 yearly intervals with information including modifications and sales transfer prices recorded on file. This will increase understanding of the marketplace in areas such as the benefit of maintenance and the impact of depreciation.

The final step was the random selection of six properties from each group. Table 3 lists six dwellings identified as being 'with character' with Table 4 identifying six properties 'without (significant) character'. For accurate comparison purposes, it was essential that properties in both groups were accompanied by a sales transaction history of approximately 30 years with the most recent sale being in the 1990's. The information for each property was fully documented including descriptions, sales data and location. The two groups were further analysed and the annual percentage increase/decrease in sales transaction prices were plotted.

Table 3: Annual % change in 'with character' dwellings and respective suburbs

Column 1 DWELLING REFERENCE	Column 2 SUBURB OF DWELLING	Column 3 SALES PERIOD (YEARS)	Column 4 DWELLING CHANGE	Column 5 SUBURB CHANGE	Column 6 DIFFERENCE (%) (DWELLING VS. SUBURB)
D1	Tarragindi	29	+3.46%	+3.26%	+0.26%
D2	Annerley	35	+3.30%	+3.47%	-0.17%
D3	Coorparoo	35	+3.34%	+2.73%	+0.61%
D4	Northgate	39	+2.65%	+2.40%	+0.25%
D5	Toowong	32	+3.05%	+2.76%	+0.29%
D6	West Chermside	31	+2.98%	+3.06%	-0.08%
					$\Sigma = 1.16$ $\xi = 0.19$

Part B – Brisbane Suburban Median House Prices

The residential areas of Brisbane are under the jurisdiction of the Brisbane City Council and are divided into approximately 160 residential suburbs which are evenly distributed on both sides of the Brisbane River. The median sales for each suburb in the period 1957 to 1998 were assembled to enable comparisons to the 12 subject properties.

To gather this information, access was gained to the valuation rolebooks of the Department of Natural Resources, which is the State Government department responsible for the valuation of all rateable properties in Queensland. The file for every property in the city of Brisbane was viewed with a 20% sample recorded of all sales. This sample was considered to be sufficient to give a reliable estimate of the complete sales population. The data was recorded and tabulated in time series (1957 to 1998) on a suburb-by-suburb basis.

The median house values for this period form the basis of comparison for the 12 subject properties.

Table 4: Annual % change in ‘without character’ dwellings and respective suburbs

Column 1 DWELLING REF.	Column 2 SUBURB OF DWELLING	Column 3 SALES PERIOD (YEARS)	Column 4 DWELLING CHANGE	Column 5 SUBURB CHANGE	Column 6 DIFFERENCE (%) (DWELLING VS. SUBURB)
D7	Annerley	28	+3.34%	+3.47%	-0.13%
D8	Acacia Ridge	24	+3.72%	+3.78%	-0.06%
D9	Balmoral	31	+2.85%	+3.07%	-0.22%
D10	Chermside	33	+2.77%	+2.85%	-0.09%
D11	Indooroopilly	29	+3.23%	+2.33%	+0.9%
D12	Wilston	34	+2.84%	+2.9%	-0.06%
					$\Sigma = 0.34$ $\xi = 0.06$

Analysis

The information presented in Table 3 represents six detached residential dwellings that were identified as possessing some form of ‘character’. Column 3 lists the sales period for each property. The annual % increase in recorded transfer prices for each individual dwelling (including land) varies between 2.65% to 3.46% (Column 4). The annual % increase for each dwelling’s respective suburb ranges from 2.40% to 3.47% (Column 5). The difference listed in Column 6 indicates that the majority of properties identified with “character” recorded a higher annual % increase in value in comparison to the % increase for the suburb it is situated in.

The six separate houses identified as being without significant ‘character’ are presented in Table 4 and show similar results. The annual increase for each individual dwelling (including land) varies between 2.4% to 3.47% (Column 4) with the annual increase for each dwelling’s suburb ranging from 2.33% to 3.78% (Column 5). The difference listed in Column 6 indicates that the majority of properties identified without ‘character’ recorded a lower annual increase than the respective suburb they are located within.

The results generally support the theory that *houses identified as having character are recognised by purchasers over a substantial period of time*. This is clearly reflected in the Column 6 data and although not considered significant this trend cannot be overlooked. Note that it was considered unreliable to directly compare properties in differing (or even adjoining) suburbs due to the obvious irregularities that arise. This is readily confirmed by examining annual growth for neighbouring suburbs during identical periods.

It must be noted that in each group (Tables 3 and 4) there are exceptions which run against the trend. No detailed explanation is offered for these properties although there may be a number of possible reasons. For example, consideration should be given to determining if the sale was considered an ‘arm’s length’ transaction or whether the author’s ‘character’ classification of the property was truly subjective.

Additionally there are a myriad of other factors (in addition to ‘character’) which could influence these findings although full consideration of these factors was not part of this research. It is

recognised that macroeconomic factors (eg. interest rates, changes in taxation policy, etc) and microeconomic factors (eg. location of amenities, topographical differences, etc) are not homogeneous and will vary from property transaction to property transaction. Interestingly some critics advocate that the inclusion of a significant number of influencing factors can detract from the main focus of the research.

Conclusion

The results clearly indicate the impact of incorporating 'character' in detached residential buildings in Australia. The 0.5% change (which equated to a difference of A\$4.28 billion) appears to be quite achievable in respect to stated variance in Table 3.

This research was conducted in a timeframe up to and including the 1990's and possibly included many dwellings that some critics may claim was conducted in a recognised era of 'character'. Whether a similar study of newer homes would return the same findings is debatable. Mass construction of the detached 'brick on slab' dwellings commenced in the 1970's in Australia and continues to be a popular housing form. Currently in Australia suburban sprawl predominantly consists of lowset clay brick dwellings which seem to bear a striking resemblance to each other. At times visitors to such areas state that every house 'looks the same' and local residents at times drive their cars up their neighbour's driveway.

Importantly the emphasis on character in this paper strictly refers to the design and construction of the original dwelling. Although it is recognised that many dwellings undergo alterations and extensions at differing stages in their lifecycle to enhance appearance and marketability, it is hypothesized that dwellings which contain original character will continue to show this aspect into the future.

This research also questions the concept that real estate demand is always demand driven. This theory is well proven in new land developments, but it is difficult to determine to what degree the detached residential dwelling market actually is demand driven. However, it is hypothesized that this research market is a distinct balance of supply and demand driven (varying considerably with the heterogeneity of each house, street and suburb), and with the integration of 'character' into the equation this factor increases the supply and then subsequently demand.

It is advocated that unless house designers and builders pay more attention to houses and 'character', with perhaps less emphasis on cost-cutting and time-saving, this trend may continue. It is also considered paramount that new residential dwelling purchasers recognise the long term financial benefits of incorporating 'character' into their homes. A similar analysis in the future may be unable to locate suitable properties with 'character' unless this aspect is understood and appreciated.

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[Note: This paper forms part of the author’s current Ph.D. studies which is based on the long term cycles for residential demand in Brisbane. The analysis examines median house transfer prices for 160 Brisbane suburbs over a 40 year timespan (1958 to 1998) and correlates findings with relevant demographic, geographic and historical data.

The author is also a registered real estate valuer in Queensland and has valued a wide variety of properties throughout Queensland for the private and public sectors.]